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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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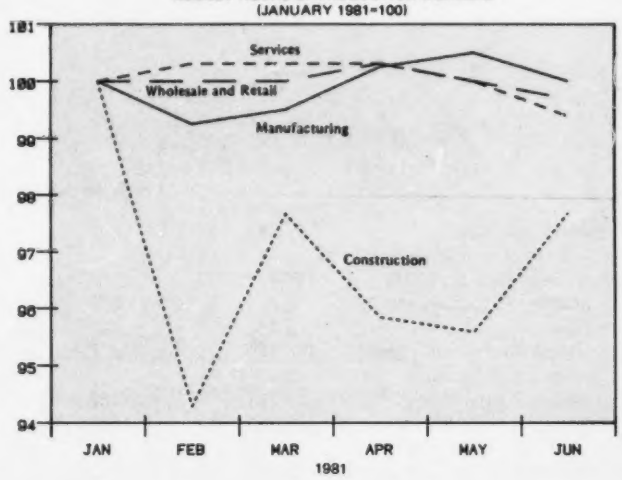
Labor Market Conditions . . .

The current high level of interest rates is beginning to take its toll. You can see its effects by looking at the labor markets. Although the unemployment rate declined in June to a seasonally adjusted 7.3 per cent of the work force from 7.6 per cent in May, this seems to be the result of a statistical quirk. There are growing signs that unemployment will soon rise. Sluggish industrial production, weak retail sales (especially of automobiles) and a sharp decline in the rate of new-home construction have caused employers in many industries to begin trimming payrolls.

The labor force typically expands in June, as large numbers of high school and college students start looking for jobs. Last month, the labor force increase was nearly 1.3 million, but this was only about one-half the amount the Bureau of Labor Statistics originally expected, based on historical trends. Therefore, after seasonal adjustment, this modest rate of rise was turned into a very large 1.2 million decline in the labor force compared with the previous month. Although job seekers 16-24 years old make up only 20 per cent of the total labor force, they were responsible for more than 80 per cent of the seasonally adjusted May-June decline.

The confusion over the May and June statistics has developed because many schools closed for the summer earlier than usual. Therefore, more students started their job search in the middle of May rather than in June. Since the BLS's seasonal factors are based on earlier years when school ended in June, it could not adjust sufficiently for the surge in job seekers which occurred in May. Indeed, in May the seasonally adjusted unemployment rate rose to 7.6 per cent of the labor force. A better picture may be constructed when an average of May and June is taken, thus cancelling out the effects of the improper seasonal factors, and then comparing the result with the previous two-month period. While the labor force expanded by a seasonally adjusted 342,000 persons during the May-June period, employment expanded by only one-third of that amount, unemployment surged by 222,000 and the unemployment rate averaged 7.5 per cent, compared with a March-April average of 7.3 per cent.

WEEKLY HOURS OF PRODUCTION WORKERS
(JANUARY 1981=100)



What is more, there are signs that unemployment may be headed higher. One important signal is last month's decline in the average number of hours worked per week. Usually, as production schedules slow, employers first cut down on overtime and then shorten the number of hours worked in plants before actually laying off their employees. Last month, the average workweek of production and nonsupervisory workers on private nonfarm payrolls declined by one-tenth of an hour to 35.3 hours from the previous month, as both goods-producing and service industries were affected. In manufacturing, the average workweek fell by two-tenths of an hour to 40.1, while in the durable goods industries it was shortened by three-tenths of an hour. Overtime in manufacturing edged down to an average of three hours per week.

. . . Begin To Deteriorate

Not surprisingly, the construction sector suffered the biggest contraction. Although the average number of hours increased in June to only 37.6 hours per week, it was still well below the 38.5 hours worked in January. What is more, since a large number of employees were laid off in the past two months, the total number of hours worked by all workers in this industry declined by more than seven per cent during the two-month period ending

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in May. Even the labor intensive service sector—which in the last recession was the last to be affected—has already incurred sharp declines in the average weekly hours worked in both May and June, as sluggish retail sales have resulted in cutbacks in payrolls.

Evidence of labor turnover in manufacturing also suggests a weakening in the labor market. In May, the total accession rate, which includes new hires, worker recalls and within-company transfers, declined for the third month. The rate of new hires is now 0.4 percentage points lower than in February. Similarly, the quit rate, which partially reflects workers' assessment of other job opportunities, fell to 1.3 workers per 100 employees in May from 1.5 in February. Typically, when unemployment rises, workers become more cautious about switching jobs and tend to hold on to their present jobs, fearing that lack of seniority in their new position could cause them to be laid off first. The layoff rate increased in June to 1.4 workers per 100 from 1.2 just one month before, while the help wanted advertising index compiled by the Conference Board—which is sensitive to changes in the demand for labor due to changes in general business conditions—has declined by ten points since the beginning of the year.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/1/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.131	– .378	– 2.701
Loans to Depository Inst.	1.735	– .570	+ 1.386
Float	3.310	+ .733	– .277
Total Reserve Bank Credit	146.159	+ .210	+ 3.727
Treasury Deposits with Federal Reserve Banks	3.213	+ .192	+ .122
Currency Outside Banks	122.965	– .545	+ 7.262
Member Bank Reserves:			
Required	40.830	+ .545	– 2.948
Excess (Deficiency)	.482	+ .118	+ .191
Total Reserves Held	41.312	+ .663	– 2.757
Net Borrowed Reserves	.947	– .688	+ .896
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.474	+ 1.628	+15.403

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	361.1	– 4.4‡	– 3.3‡
M-1B	427.3	+ 2.5‡	+ 8.4‡
M-2 (May '81)	1,743.7	+ 11.3	+ 11.2
L (March '81)	2,442.3	+ 10.9	+ 10.5

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 7/10/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.60%	14.25%	13.45%
* Federal Agencies	15.35	15.45	15.48
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	14.26	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.55	16.80	16.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	18.00%	Aug.	17.95%
15- 29 days	18.00	Sep.	17.60
30- 59 days	17.75	Oct.	17.00
60- 89 days	16.00	Nov.	16.90
90-179 days	14.75	Dec.	16.40
180-239 days	12.00	Jan.	16.00
240-270 days	12.00		

‡Industrial Paper—Prime			
30- 89 days	18.00%	†Federal Funds Effective Rate	19.00%
90-120 days	17.00		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,853	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.6%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	May '81	8.4%	4.8%	10.8%
Change in Producer Prices*	Jun '81n	7.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons)†	Jun '81	98,392	99,235	96,780
Unemployment as % of Civilian Labor Force†	Jun '81	7.3%	7.6%	7.5%
Personal Income*	May '81	$ 2,367	$ 2,354	$ 2,114
Leading Indicators Composite Index (1967=100)†	May '81	135.2	137.7	123.0
Industrial Production Index (1967=100)†	May '81	152.8	152.3	144.0
Net Change in Consumer Installment Credit†	May '81n	$ 1.35	$ 2.33	–$ 2.68
U.S. Merchandise Trade Balance†	May '81	–$ 2.44	–$ 2.47	–$ 2.94
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	May '81	1,152	1,340	938
New Construction Expenditures*	May '81	$237.3	$248.9	$218.9
Total Business Inventories†	Apr '81	$ 474.9	$ 472.4	$ 448.9
Total Business Sales†	Apr '81	$ 346.1	$ 346.6	$ 301.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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Autos Hit A Roadblock

Looking beneath the surface, one of the highest rates of unemployment continues to prevail in Detroit, where thousands of workers have been laid off as a result of depressed automobile sales. Although the unemployment rate in April (latest available) dropped to 13 per cent from 14.8 per cent in February, it is still almost twice the national average. There are several reasons for this improvement. Since March, the auto manufacturers have stepped up assemblies to replenish severely depleted inventories—which fell to 44 days' sales in March—as well as to prepare for summer plant closings necessary to retool for the 1982 model year. As a result, many production workers who were laid off previously were called back to work. However, many workers have become discouraged, since they have been unemployed for a long time and have given up on ever finding a job in Detroit again. They have either dropped out of the labor force completely or have moved away. Since they are not counted as unemployed any longer, this has also contributed to the drop in the unemployment rate.

However, if automobile sales do not pick up, unemployment may soon rise. The industry's recent sales performance makes inventories a potential

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/24/81)	121,226	+ 3,682	+28,040
New York City (6/24/81)	28,831	+ 1,278	+ 6,715
Commercial Paper (6/24/81)	148,623	+ 1,713	+22,923

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/81)	178,750	+ 454	+20,278
New York City (6/24/81)	51,994	– 627	+ 5,596

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/81)	439,753	– 355	+45,377
New York City (6/24/81)	104,252	– 1,857	+15,686

Financial Markets

	Friday 7/10/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.61%	+ .45	+ 7.44
180-Day Bills†	15.30	– .16	+ 7.02
Longest Bills†	14.85	– .20	+ 6.55
Recent Issues:			
14⅝s 6/30/83	14.62	–0–	
14s 6/30/85	14.85	+ .33	
14¼s 5/15/91	13.80	– .14	
13⅞s 5/15/11	13.32	+ .07	
Municipals:			
Bond Buyer–20 Bond Index* (7/9/81)	10.97%	+ .12	+ 3.02
Blue List Total ($ Million)	$ 971	– $142	– $ 84
30-Day Visible Supply ($ Million)	$2,006	+ $310	– $ 207
Total	$2,977	+ $168	– $ 291
Corporates:			
Moody's Aa Composite (7/9/81)	14.68%	+ .12	+ 3.37
Money Mgr.–30-Day Supply ($ Million)	$8,004	– $246	+ $3,823
Stocks:			
Dow-Jones Averages:			
Industrials	955.67	– 3.52	+ 64.54
Transportation	403.76	– 5.84	+ 112.24
Utilities	107.64	+ .90	– 7.07
65 Stocks	370.44	– 1.97	+ 45.24
Standard and Poor's 500 Stocks	129.38	+ .73	+ 12.06
N.Y.S.E. Composite Index	75.15	+ .42	+ 7.70
N.Y.S.E. Avg. Daily Vol. for Week (000's)	45,994	+11,196	+ 1,488

* 46% Taxable equivalent 20.31%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/10/81	Week Ago
Overnight	19.50%	19.25%
1 month	19.00	18.75
3 month	18.50	18.19
6 month	18.00	17.81
1 year	16.88	16.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.60%
Long Term (7 to 15 yrs.)	14.75	14.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/10/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02499	40.01
Canada	.8303	1.2044
Denmark	.1311	7.6292
France	.1710	5.8475
Germany	.4091	2.4445
Italy	.0008218	1216.80
Japan	.004371	228.80
Mexico	.04067	24.59
Netherlands	.3676	2.7200
Switzerland	.4793	2.0863
U.K.	1.8925	.5284